



JAN 31 2003

TO: See Distribution List**FROM:** Dennis J. Duquette
Deputy Inspector General
for Audit Services**SUBJECT:** Report on the Financial Statement Audit of the Food and Drug Administration for Fiscal Year 2002 (A-17-02-00008)

The attached final report presents the results of the audit of Fiscal Year's (FY) 2002 financial statements of the Food and Drug Administration (FDA). We contracted with KPMG LLP, an independent certified public accounting firm, to perform the FDA audit that supports the departmentwide audit by the Office of Inspector General in accordance with the Government Management Reform Act of 1994.

Management is responsible for; (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act) are met, and (3) complying with applicable laws and regulations, including ensuring that FDA's financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements.

The audit objectives were to determine whether: (1) the FDA consolidated balance sheets as of September 30, 2002 and 2001, and the related consolidated statements of net cost for the FYs then ended, as well as the consolidated statements of changes in net position and financing, and the combined statement of budgetary resources for the FY ended September 30, 2002, were fairly presented in all material respects; (2) FDA internal controls provided reasonable assurance that transactions were properly recorded and accounted for to permit the preparation of reliable financial statements; and (3) FDA complied with laws and regulations that could have a direct and material effect on the financial statements.

We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of KPMG, met with partners and staff members, evaluated the key judgments, met with officials of FDA, reviewed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with auditing standards generally accepted in the United States.

We concur with KPMG's report that indicated the financial statements referred to above present fairly, in all material respects, the financial position of FDA as of September 30, 2002 and 2001, and its net costs for the years then ended, as well as the changes in net position, budgetary

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resources, and reconciliation of net costs to budgetary resources for the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United States. The FDA is commended for sustaining its unqualified opinion.

Furthermore, the report on internal controls noted no weaknesses considered to be material under standards established by the American Institute of Certified Public Accountants. The report did note, however, certain matters relating to the internal controls over information systems, which were considered to be a reportable condition.

Exclusive of the FFMIA, there were no reportable noncompliance with laws and regulations tested. The FDA's financial management systems (accounts receivable, cost management, and property) did not substantially comply with FFMIA Federal financial management systems requirements.

We would appreciate your views and information on the status of any action taken or contemplated on the recommendations within the next 60 days. If you have any questions or comments about this report, please do not hesitate to call me or David M. Long, Assistant Inspector General for Financial Management and Regional Operations, at (202) 619-1157 or through email at dlong@oig.hhs.gov. Please refer to report number A-17-02-00008 in all correspondence relating to this report.

Attachment